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C O N F I D E N T I A L SECTION 01 OF 03 DJIBOUTI 001266

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SUBJECT: DJIBOUTI ENGAGES SAUDI INVESTOR FOR USAID
LIVESTOCK PROJECT

Classified By: AMBASSADOR MARGUERITA D. RAGSDALE.
REASONS 1.4 (B) AND (D).

¶11. (C) Summary: With a claim of dissatisfaction with technical aspects of construction and progress of the U.S. Agency for International Development (USAID)-funded Livestock Export Facility in Djibouti, the Government of Djibouti has advised Embassy and Regional Economic Development Services Office (REDSO) in Nairobi of its engagement of a Saudi investor to complete the project and achieve "standards" that will pass the scrutiny of Gulf, and primarily Saudi, livestock importers. On December 19, USAID affiliation with the project ended, following an investment in it of approximately USD 5 million. The facility "as-is" and remaining materials and equipment were turned over to the Government of Djibouti on December 25. Ambassador met Djibouti's Foreign Minister separately on December 18, and jointly on December 19 with REDSO Director Andrew Sisson, to discuss the new development. Although REDSO Director expressed to the Foreign Minister concern about the transparency of the process of engagement of the Saudi investor and his agency's desire to see the project benefit all Djiboutians, Djibouti's Foreign Minister reassured on this score, describing the move as not a desire to "hijack" the project but to ensure both its success and its capacity to create jobs and income for Djiboutians. Despite these assurances, the paucity of details the government of Djibouti has provided about the position of the Saudi investor in the project leaves significant questions of control and ownership open for speculation. End Summary.

¶12. (C) Djibouti's Minister of Foreign Affairs (FM), Mahamoud Ali Youssuf, informed Embassy and USAID November 24 that the Government of Djibouti had been in discussions with four foreign investors about potential investment in the USAID-originated livestock export facility in Djibouti and that Saudi investor, Mohamed Kayed Mohamed, had been selected from among them. In a meeting with Ambassador on December 18 and in a follow-on meeting December 19 with visiting REDSO Director Andrew Sisson and Ambassador, the FM elaborated on this decision.

¶13. (C) In the December 18 meeting, Ambassador handed to the FM a letter from REDSO Director acknowledging Djibouti's decision and confirming USAID's plans to finalize construction activities on the livestock project by December 18 and to hand over the project at that time to the government of Djibouti. The letter urged that the project be governed in accordance with the highest standards of integrity and transparency to ensure its benefit for the people and economy of Djibouti.

¶14. (C) The FM reviewed the letter and provided his views to Ambassador of the project's status. He described it "mismanaged since its outset." He said that while USAID blamed its implementing partner, the African Union, for failures, the African Union had clearly been selected by USAID. The second contractor USAID engaged, Chemonics (RATES), was not serious, the FM asserted, and lacked sufficient experience. The facility, as it is currently configured, does not conform to international standards and criteria important to customers, especially those in the Gulf. He added that if Djibouti asks Saudi Arabia "today" to lift its livestock embargo, it will not do so because the criteria for export had not been met. The FM continued that with the amount of money already invested, the project could have been completed in one year. Yet more than two years have since passed. He asked that USAID provide a final accounting of how the money was spent.

¶15. (C) The FM expressed his concern that USAID wished in reality to be part of the facility's eventual management. "It should not be AID's role to manage," he said. "Djibouti anticipates private management, open to all investors regionally and internationally", the FM added. To "save face" for everyone, he continued, Djibouti has selected Mohamed Kayed Mohamed of Saudi Arabia to complete the project that USAID has begun. Mohamed offers investment and services capacity to import annually approximately 4 million heads of livestock from Djibouti. He has 50 slaughter houses in Saudi

Arabia and businesses in Yemen in the livestock domain. His facility in Jeddah, situated on 1 million square meters of land, is impressive. Moreover, the FM continued, the Islamic Bank of Saudi Arabia is ready to finance the investor and this project. Five to eight months would be needed by the investor to "correct deficiencies," the FM claimed, in grading, water networks, feeding troughs, and veterinary services.

¶6. (C) The FM eschewed the notion that Djibouti wished to "hijack" the livestock project. He said Djibouti only wants it to work. He reassured Ambassador that the "concession" for land on which the facility sits was removed from Chamber of Commerce control (by presidential decree dated November 27, 2005) solely to reassure the new investor that the land for the project is unencumbered.

¶7. (C) In the meeting on December 19, the FM made many of these same points. REDSO Director acknowledged that the performance of AU/IBAR and RATES had not met expectations but that the greater disappointment was with AU/IBAR. In the last year, he said, attempts have been made to correct mistakes. USAID suspended its grant with AU/IBAR for poor performance and contracted with Chemonics to complete the work. He emphasized to the FM that AID never wanted to "manage" the project and that its intent all along had been to find the best possible manager for Djibouti. REDSO Director also noted that USAID has long advocated, and the Government of Djibouti including the Foreign Minister himself has agreed, that there should be "private sector" management of the facility. "If the foreign investor Djibouti has chosen is good, this is great news. USAID's objective and concern will remain assistance to the people of Djibouti," REDSO Director said.

¶8. (C) The FM responded that Djibouti shared the same concerns as REDSO Director -- to make the project successful and to create income and jobs for Djiboutians. Djibouti is seeking private management, he continued, because his government is notoriously a bad manager and has unsuccessfully managed government-owned companies in the past. This is why Djibouti placed Djibouti Telecom under France's Alcatel, its ports and airport under Dubai's DP World and its railway under a South African/French joint venture company. Djibouti's policy continues to be to find good commercial partners with which to work, the FM added.

¶9. (C) When Djibouti found it difficult to market its livestock in Saudi Arabia, it knew an outside investor would be needed to make up for wasted time and money, the FM continued. He described the process of finding a new investor as "transparent." The FM insisted the Government of Djibouti would own the facility and Saudi investor Mohamed would have a "20-year concession" provided his feasibility study merits such a concession. "There would be no monopoly for one individual", the FM said. In his view, the Saudi investor would receive a percentage of profits from the facility initially until he had recovered his investment.

¶10. (C) REDSO Director asked the FM how the interests of herders would be protected under the planned investment arrangement. The FM responded that the herders will have use of the facility. "If they want to become partners, they can do so provided they have the money." He also said it is in Djibouti's interests that the rights of herders be preserved.

¶11. (C) REDSO Director expressed his preference to convey USAID's concerns about management of the project and to pull back for the time being from it and to observe. The FM interjected that he thought this would be best. (Note: Ismail Tani, Director of the President's Cabinet, in a separate meeting with REDSO Director and Ambassador in which the same points of the FM meeting were confirmed, requested continued USAID support for the project, primarily through technical assistance and training. The Minister of Agriculture, Abdulkader Kamil Mohamed, also requested support for additional work at the project site via a letter to USAID offices. USAID's current preference is to take a pause and see how the Saudi investment develops. End note.) REDSO Director continued that USAID's objective is to see a facility that is beneficial to Djibouti's people, open, transparent, and not a gift to a wealthy Saudi investor. He said he wanted the project to maintain its integrity.

¶12. (C) The FM responded that he was concerned REDSO Director believed Djibouti had turned over its project to a rich person with little regard for the interests of Djibouti's people. He said Djibouti's people ARE the concern of government. "Your repeating this (concern) is not an approach advisable for USAID to adopt," the FM added. He reiterated that Djibouti would like a report of everything done to date on the project including equipment bought and money spent. REDSO promised to provide a broad outline of expenditures to date. (Comment: Embassy forwarded this information to the FM on December 27 by letter from REDSO Director to the FM. End comment.)

¶13. (C) COMMENT: USAID promised to deliver to Djibouti a facility capable of processing pilot shipments of five thousand head of livestock. Its technical experts still believe this facility, as handed over to the Government of Djibouti on December 19, is ready to do this despite the government's views to the contrary. Although USAID involvement with the livestock project was to end the same day, REDSO Director agreed to retain guard service at the facility until December 25, when the facility was officially relinquished to the Government of Djibouti. Embassy is planning a formal handover ceremony for mid-January in order to acknowledge U.S. investment in this project and to show that it is moving forward.

¶14. (C) COMMENT CONTINUED: Meanwhile, individuals under the employ of Mohamed Kayed Mohamed are already in Djibouti and working directly with Djiboutian officials. Three of them, Mohamed Ahmed, Bassabre Rifki and Taha Gad were introduced to Ambassador and Acting USAID Representative Tom Hall on December 24 at Ministry of Foreign Affairs headquarters. Despite assurances from the Government of Djibouti that the process of finding and choosing an outside investor has been transparent, the paucity of details the government of Djibouti has provided about the position of the investor in the project leaves significant questions of control and ownership open for speculation. A future role for USAID in this project, if any, has not yet been determined. End comment.

RAGSDALE